

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY BUENOS AIRES

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E.O. 11652: N/A

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SUBJECT: NEW GOA FISCAL MEASURES

REF: A) BA 6622; (B) A-96, APRIL 23, 1975

1. SPOTLIGHT IN ECONOMIC AREA HAS FOCUSED RECENTLY ON NEW GOA FISCAL MEASURES FOR 1976. IN RECENT DAYS, MINISTER CAFIERO AND MEMBERS ECONOMIC TEAM HAVE BEEN TESTIFYING BEFORE CONGRESS ON 1976 BUDGET AND TAX REFORM PROGRAM. EARLIER IN DECEMBER MINISTER CAFIERO SIGNED SIGNIFICANT AGREEMENT WITH PROVINCIAL GOVERNORS AND MAYOR OF BUENOS AIRES PROVIDING FOR STRENGTHENING OF PROVINCIAL FINANCES. HIGHLIGHTS OF THESE DEVELOPMENTS FOLLOW.

2. 1976 BUDGET: 1976 BUDGET FOR NATIONAL ADMINISTRATION, RECENTLY SUBMITTED TO CONGRESS, PROVIDES FOR TOTAL EXPENDITURES OF 491 BILLION PESOS, TOTAL REVENUES OF 301 BILLION PESOS AND DEFICIT OF 190 BILLION PESOS (FINAL 1975 BUDGET DEFICIT 164 BILLION PESOS). ACCORDING TO PRESS, 1976 BUDGET MADE ON ASSUMPTION OF 80 PERCENT INFLATION AND APPROXIMATELY 4 PERCENT GDP GROWTH RATE. BUDGET ALSO INCLUDES PROVISION FOR SALARY INCREASES (INITIAL 1975 BUDGET DID NOT). TAX RECEIPTS PROJECTED INCREASE SIGNIFICANTLY IN REAL TERMS (ABOUT 300 PERCENT OVER FINAL 1975 BUDGET FIGURE). EXPORT AND FUEL TAX INCREASES PARTICULARLY LARGE. CURRENT EXPENDITURES PROJECTED TO INCREASE ABOUT 81.5 PERCENT, I.E. APPROXIMATELY

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EQUIVALENT TO FINAL 1975 BUDGET ESTIMATE IN REAL TERMS. BUDGET

ALSO PROVIDES FOR SUBSTANTIAL EXPANSION PUBLIC SECTOR INVESTMENT,  
PARTICULARLY IN AREAS OF ENERGY AND PETRO-CHEMICALS.

3. TAX REFORMS GOA COUNTING ON TAX REFORM MEASURES TO PROVIDE  
SUBSTANTIAL ADDITIONAL REVENUE IN 1976. A NUMBER OF DRAFT  
BILLS RECENTLY SUBMITTED CONGRESS. MAJOR REFORMS INCLUDE  
A) WHITEWASH FOR TAX AND CUSTOMS DEBTS, B) INDEXATION OF ALL  
TAX OBLIGATIONS (TO AVOID EROSION FROM INFLATION), C) SHIFT  
IN EXCISE TAXES FROM FLAT TO PERCENTAGE RATES (AGAIN TO AVOID  
EROSION FROM INFLATION), D) INCREASE IN CORPORATE NET WORTH TAX  
FROM CURRENT 1 PERCENT RATE TO 1.2 PERCENT, E) IMPLEMENTATION OF  
EMERGENCY CORPORATE NET WORTH TAX OF 2 PERCENT FOR 1976 (I.E.  
ON 1975 CORPORATE NET WORKTH), F) RE-IMPLEMENTATION OF SALES  
TAX WHICH SUPERSEDED IN JANUARY 1975 BY VALUE ADDED TAX (WHICH  
REMAINS IN EFFECT), AND G) SUBSTANTIAL INCREASE IN LEVELS OF  
NON-TAXABLE INCOME FOR SALARIED WORKERS (TO ELIMINATE INEQUITIES).

4. AGREEMENT TO STRENGTHEN PROVINCIAL FINANCES: IN EARLY DECEMBER,  
MINISTER OF ECONOMY CAFIERO SIGNED AGREEMENT TO STRENGTHEN PROVIN-  
CAIL FINANCE WITH GOVERNORS ALL PROVINCES AND MAYOR OF BUENOS  
AIRES. GENERAL PURPOSE IS TO INCREASE PROVINCIAL TAX RECEIPTS  
AND RESTRICT EXPENDITURES. KEY SOURCES OF NEW PROVINCIAL REVENUES  
ARE A) SALES TAX NOTED ABOVE (THIS IS REVENUE SHARED BY THE  
FEDERAL GOVERNMENT, PROVINCES AND MUNICIPALITY OF BUENOS AIRES),  
B) NEW SYSTEM FOR ENSURING REAL ESTATE VALUED AT CURRENT  
PRICES TO RAISE REAL ESTATE TAXES, C) INDEXATION OF PROVINCIAL  
TAXES, D) PROMPT TRANSFER BY CENTRAL GOVERNMENT TO PROVINCES AND  
MUNICIPALITY OF BA OF SHARED TAXES. ONE KEY ARTICLE OF AGREEMENT  
CALLS FOR RESTRICTION OF PUBLIC SECTOR PERSONNEL AT OCTOBER 31, 1975  
LEVELS.

5. COMMENT: ASSUMPTIONS ON 1976 BUDGET EXTREMELY OPTIMISTIC.  
INFLATION NOT LIKELY TO BE REDUCED TO 80 PERCENT NOR ECONOMY  
TO GROW AT 4 PERCENT. WE CANNOT YET ASSESS LIKELY IMPACT OF  
TAX REVENUE MEASURES. HOWEVER, WE WOULD NOTE INCREASING TAXES AND  
CONTROLLING EXPENDITURES WILL BE PARTICULARLY DIFFICULT IN  
WHAT HAS NOW BECOME AN ELECTION YEAR. IN SUM, WHILE THESE  
MEASURES APPEAR A DESIRABLE FORWARD STEP, BELIEVE FISCAL  
PROBLEMS WILL REMAIN EXTREMELY SERIOUS.

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